

BODISEN BIOTECH, INC  
Form 10QSB  
May 09, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-QSB**

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

**For the quarterly period ended March 31, 2006**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**001-32616**

(Commission file number)

**BODISEN BIOTECH, INC.**

(Exact name of small business issuer as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**98-0381367**

(IRS Employer  
Identification No.)

**North Part of Xinquia Road, Yang Ling AG  
High-Tech Industries Demonstration Zone  
Yang Ling, China 712100**

(Address of principal executive offices)

**86-29-870749**

(Issuer's telephone number)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 8, 2006 - 18,176,917 shares of common stock

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Transitional Small Business Disclosure Format (check one): Yes  No

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**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**AS OF MARCH 31, 2006**

| <u>ASSETS</u>   | <b>March 31,<br/>2006</b> |
|---|---------------------------|
|   | (unaudited)               |
| <b>CURRENT ASSETS:</b>  |                           |
| Cash & cash equivalents   | \$ 26,085,746             |
| Accounts receivable, net of allowance for doubtful<br>accounts of \$398,509                             | 11,848,040                |
| Other receivable  | 1,058,775                 |
| Inventory   | 1,377,426                 |
| Advances to suppliers   | 3,021,216                 |
| Prepaid expense   | 60,961                    |
| Other current assets  | 2,770                     |
| <b>Total current assets</b>   | <b>43,454,934</b>         |
| <b>PROPERTY AND EQUIPMENT, net</b>  | <b>4,894,079</b>          |
| <b>CONSTRUCTION IN PROGRESS</b>   | <b>2,236,125</b>          |
| <b>MARKETABLE SECURITY</b>  | <b>9,101,217</b>          |
| <b>INTANGIBLE ASSETS</b>  | <b>2,100,175</b>          |
| <b>TOTAL ASSETS</b>   | <b>\$ 61,786,530</b>      |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>  |                           |
| <b>CURRENT LIABILITIES:</b>   |                           |
| Accounts payable  | \$ 777,648                |
| Other payables  | 3,408,113                 |
| Accrued expenses  | 473,253                   |
| <b>Total current liabilities</b>  | <b>4,659,014</b>          |
| <b>STOCKHOLDERS' EQUITY:</b>  |                           |
| Preferred stock, \$0.0001 per share; authorized 5,000,000<br>shares; none issued                        |                           |
| Common stock, \$0.0001 per share; authorized 30,000,000<br>shares;<br>issued and outstanding 18,176,917 | 1,818                     |
| Additional paid-in capital  | 32,860,075                |
| Other comprehensive income  | 6,781,292                 |
| Statutory reserve   | 2,892,854                 |
| Retained earnings   | 14,591,477                |

|                            |  |            |
|----------------------------|--|------------|
| Total stockholders' equity |  | 57,127,516 |
|----------------------------|--|------------|

**TOTAL LIABILITIES AND STOCKHOLDERS'  
EQUITY**

|  |    |            |
|--|----|------------|
|  | \$ | 61,786,530 |
|--|----|------------|

The accompanying notes are an integral part of these consolidated financial statements

**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005**

|   | <b>Three Months Ended March 31,</b> |              |
|---|-------------------------------------|--------------|
|   | <b>2006</b>                         | <b>2005</b>  |
|   | (Unaudited)                         | (Unaudited)  |
| <b>Net Revenue</b>                            | \$ 10,535,360                       | \$ 4,701,675 |
| <b>Cost of Revenue</b>                        | 6,299,121                           | 3,047,498    |
| <b>Gross profit</b>                           | 4,236,239                           | 1,654,177    |
| Operating expenses                            |                                     |              |
| Selling expenses                              | 474,174                             | 148,140      |
| General and administrative expenses           | 304,224                             | 278,470      |
| Total operating expenses                      | 778,398                             | 426,610      |
| <b>Income from operations</b>                 | 3,457,841                           | 1,227,567    |
| Non-operating income (expense):               |                                     |              |
| Other income (expense)                        | (124,541)                           | (416,703)    |
| Interest income                               | 28,063                              | —            |
| Interest expense                              | (678,720)                           | (14,131)     |
| Total non-operating income (expense)          | (775,198)                           | (430,834)    |
| <b>Net income</b>                             | \$ 2,682,643                        | \$ 796,733   |
| Other comprehensive income                    |                                     |              |
| Foreign currency translation (loss)           | (40,500)                            | —            |
| Unrealized gain on marketable equity security | 2,290,783                           | —            |
| <b>Comprehensive Income</b>                   | \$ 4,932,926                        | \$ 796,733   |
| <b>Weighted average shares outstanding :</b>  |                                     |              |
| Basic   | 17,215,232                          | 15,268,000   |
| Diluted                                       | 17,374,691                          | 15,529,458   |
| <b>Earnings per share:</b>                    |                                     |              |
| Basic   | \$ 0.16                             | \$ 0.05      |
| Diluted                                       | \$ 0.15                             | \$ 0.05      |

The accompanying notes are an integral part of these consolidated financial statements

**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005**

|   | <b>Three Months Ended March 31,</b> |                  |
|---|-------------------------------------|------------------|
|   | <b>2006</b>                         | <b>2005</b>      |
|   | (unaudited)                         | (unaudited)      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                     |                  |
| Net income  | \$ 2,682,643                        | \$ 796,733       |
| Adjustments to reconcile net income to net cash provided in operating activities: |                                     |                  |
| Depreciation and amortization   | 103,161                             | 77,509           |
| Amortization of debt discounts  | 603,886                             | —                |
| Exchange loss   | 124,541                             | —                |
| Value of vested option issued to directors  | 7,523                               | —                |
| (Increase) / decrease in assets:  |                                     |                  |
| Accounts receivable   | (4,300,470)                         | (2,892,853)      |
| Other receivable  | (14,144)                            | —                |
| Inventory   | (188,722)                           | (200,253)        |
| Advances to suppliers   | 1,565,316                           | 155,137          |
| Other assets  | 765                                 | (551,707)        |
| Increase / (decrease) in current liabilities:                                     |                                     |                  |
| Accounts payable  | 724,157                             | 174,614          |
| Other payables  | 1,792                               | —                |
| Accrued expenses  | 61,118                              | 34,773           |
| Net cash provided by operating activities   | 1,371,566                           | (2,406,047)      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                                     |                  |
| Acquisition of property and equipment   | (43,776)                            | (890,633)        |
| Additions to construction in progress   | (349,147)                           | —                |
| Net cash used in investing activities   | (392,923)                           | (890,633)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                     |                  |
| Payments on note payable  | (5,000,000)                         | —                |
| Repayments of loans to officers   | —                                   | 968,000          |
| Proceeds from issuance of convertible note  | —                                   | 3,000,000        |
| Proceeds from issuance of common stock  | 26,682,511                          | —                |
| Payment of offering costs   | (2,747,227)                         | —                |
| Proceeds from the exercise of warrants  | 220,160                             | —                |
| Net cash provided by financing activities   | 19,155,444                          | 3,968,000        |
| Effect of exchange rate changes on cash and cash equivalents                      | (325,238)                           | —                |
| <b>NET INCREASE IN CASH &amp; CASH EQUIVALENTS</b>                                | <b>19,808,849</b>                   | <b>671,320</b>   |
| <b>CASH &amp; CASH EQUIVALENTS, BEGINNING BALANCE</b>                             | <b>6,276,897</b>                    | <b>2,121,811</b> |

|  |    |            |    |           |
|--|----|------------|----|-----------|
| <b>CASH &amp; CASH EQUIVALENTS, ENDING BALANCE</b> | \$ | 26,085,746 | \$ | 2,793,131 |
|--|----|------------|----|-----------|

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

|                   |    |         |    |        |
|-------------------|----|---------|----|--------|
| Interest paid     | \$ | 112,500 | \$ | 37,794 |
| Income taxes paid | \$ | —       | \$ | —      |

The accompanying notes are an integral part of these consolidated financial statements



**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 1 - Organization and Basis of Presentation**

Organization and Line of Business

Yang Ling Bodisen Biology Science and Technology Development Company Limited (“BBST”) was founded in the People’s Republic of China on August 31, 2001. BBST, located in Yang Ling Agricultural High-Tech Industries Demonstration Zone, is primarily engaged in developing, manufacturing and selling pesticides and compound organic fertilizers in the People’s Republic of China. Bodisen International, Inc. (“BII”) is a Delaware Corporation, incorporated on November 19, 2003. BII was a non-operative holding company of BBST. On December 15, 2003, BII entered in to an agreement with all the stockholders of BBST to exchange all of the outstanding stock of BII for all the issued and outstanding stock of BBST. After the consummation of the agreement, the former stockholders of BBST own 1,500 shares of common stock of BII, which represent 100% of BII’s issued and outstanding shares. For U.S. Federal income tax purpose, the transaction is intended to be qualified as a tax-free transaction under section 351 of the Internal Revenue Code of 1986, as amended.

The exchange of shares with BBST has been accounted for as a reverse acquisition under the purchase method of accounting since the stockholders of the BBST obtained control of the consolidated entity. Accordingly, the merger of the two companies has been recorded as a recapitalization of BBST, with BBST being treated as the continuing entity. The historical financial statements presented are those of BBST. The continuing company has retained December 31 as its fiscal year end. The financial statements of the legal acquirer are not significant; therefore, no pro forma financial information is submitted.

On February 24, 2004, BII consummated a merger agreement with Stratabid.com, Inc. (“Stratabid”), a Delaware corporation, to exchange 12,000,000 shares of Stratabid to the stockholders of BII, in which BII merged into Bodisen Holdings, Inc. (BHI), an acquisition subsidiary of Stratabid, with BHI being the surviving entity. As a part of the merger, Stratabid cancelled 3,000,000 shares of its issued and outstanding stock owned by its former president and declared a stock dividend of three shares on each share of its common stock outstanding for all stockholders on record as of February 27, 2004.

Stratabid was incorporated in the State of Delaware on January 14, 2000 and before the merger, was a start-up stage Internet based commercial mortgage origination business based in Vancouver, BC, Canada. The exchange of shares with Stratabid has been accounted for as a reverse acquisition under the purchase method of accounting since the stockholders of BII obtained control of Stratabid. On March 1, 2004, Stratabid was renamed Bodisen Biotech, Inc. (the “Company”). Accordingly, the merger of the two companies has been recorded as a recapitalization of the Company, with the Company being treated as the continuing entity. The financial statements of legal acquirer are not significant; therefore, no pro forma financial information is submitted.

In March 2005, Bodisen Biotech Inc. completed a \$3 million convertible debenture private placement through an institutional investor. Approximately \$651,000 in expenses relating to this private placement has been amortized over the term of the convertible debenture. The net proceeds from this offering were sent to China towards capital contribution of the registration of a wholly-owned Bodisen subsidiary by the name of “Yang Ling Bodisen Agricultural Technology Co., Ltd. (“Agricultural”). In June 2005, Agricultural completed a transaction with Yang Ling Bodisen Biology Science and Technology Development Company Limited (“Yang Ling”), Bodisen Biotech, Inc.’s operating subsidiary in China, which resulted in Agricultural owning 100% of Yang Ling.



**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

Basis of Presentation

The unaudited consolidated financial statements have been prepared by Bodisen Biotech, Inc. (the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-KSB. The results of the three months ended March 31, 2006 are not necessarily indicative of the results to be expected for the full year ending December 31, 2006.

Foreign Currency Translation

As of March 31, 2006 and 2005, the accounts of the Company were maintained, and their consolidated financial statements were expressed in the Chinese Yuan Renminbi (CNY). Such consolidated financial statements were translated into U.S. Dollars (USD) in accordance with Statement of Financial Accounts Standards ("SFAS") No. 52, "Foreign Currency Translation," with the CNY as the functional currency. According to the Statement, all assets and liabilities were translated at the exchange rate on the balance sheet date, stockholder's equity are translated at the historical rates and statement of operations items are translated at the weighted average exchange rate for the year. The resulting translation adjustments are reported under other comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income

**Note 2 - Summary of Significant Accounting Policies**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Accounts Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Terms of the sales vary from COD through a credit term up to 9 to 12 months. Reserves are recorded primarily on a specific identification basis. Allowance for doubtful debts amounted to \$398,509 as at March 31, 2006.



**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

Advances to Suppliers

The Company advances to certain vendors for purchase of its material. The advances to suppliers are interest free and unsecured. The advances to suppliers amounted to \$3,021,216 at March 31, 2006.

Property & Equipment & Capital Work In Progress

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives of:

|                     |          |
|---------------------|----------|
| Operating equipment | 10 years |
| Vehicles            | 8 years  |
| Office equipment    | 5 years  |
| Buildings           | 30 years |

At March 31, 2006, the following are the details of the property and equipment:

|                               |              |
|-------------------------------|--------------|
| Operating equipment           | \$ 929,960   |
| Vehicles                      | 404,655      |
| Office equipment              | 68,188       |
| Buildings                     | 4,169,606    |
|                               | 5,572,409    |
| Less accumulated depreciation | (678,330)    |
|                               | \$ 4,894,079 |

Depreciation expense for the three months ended March 31, 2006 and 2005 was \$68,842 and \$44,974, respectively.

On March 31, 2006, the Company has "Capital Work in Progress" representing the construction in progress of the Company's manufacturing plant amounting \$2,236,125.

Marketable Securities

Marketable securities consist of 2,063,768 shares of China Natural Gas, Inc. (traded on the OTCBB: CHNG). This investment is classified as available-for-sale as the Company plans to hold this investment for the long-term. This investment is reported at fair value with unrealized gains and losses included in other comprehensive income. The fair value is determined by using the securities quoted market price as obtained from stock exchanges on which the security trades.

Investment income, principally dividends, is recorded when earned. Realized capital gains and losses are calculated based on the cost of securities sold, which is determined by the "identified cost" method.

Intangible Assets

Intangible assets consist of Rights to use land and Fertilizers proprietary technology rights. The Company evaluates intangible assets for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets, other long-lived assets and, goodwill is measured by comparing their net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss.

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**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

Revenue Recognition

The Company's revenue recognition policies are in compliance with Staff accounting bulletin (SAB) 104. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectibility is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

Stock-Based Compensation

The Company accounts for its stock-based compensation in accordance with SFAS No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123." The Company recognizes in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees. During the three months ended March 31, 2006, the Company recognized compensation expense of \$7,523 related to certain employee option issued in 2005 that vested during the three months ended March 31, 2006.

Income Taxes

The Company utilizes SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

According to the Provisional Regulations of the People's Republic of China on Income Tax, the Document of Reductions and Exemptions of Income Tax for the Company had been approved by the local tax bureau and the Yang Ling Agricultural High-Tech Industries Demonstration Zone. The Company is exempted from income tax through October 2007.

In March 2005, Bodisen Biotech Inc. formed a new 100% wholly-owned subsidiary named Yang Ling Bodisen Agricultural Technology Co., Ltd. ("Agricultural") in China. Under Chinese law, a newly formed wholly owned subsidiary of a foreign company enjoys an income tax exemption for the first two years and a 50% reduction of normal income tax rates for the following 3 years. In order to extend such tax benefits, in June 2005, Agricultural completed a transaction with Yang Ling Bodisen Biology Science and Technology Development Company Limited ("Yang Ling", Bodisen Biotech, Inc.'s operating subsidiary in China), which resulted in Agricultural owning 100% of Yang Ling.

**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

Foreign Currency Transactions and Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as gain or loss on foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. The functional currency of the Company is Chinese Renminbi. The unit of Renminbi is in Yuan. Translation gains of \$547,421 at March 31, 2006 are classified as an item of other comprehensive income in the stockholders' equity section of the consolidated balance sheet. During the three months ended March 31, 2006 and 2005, other comprehensive income in the consolidated statements of income and other comprehensive income included translation loss of \$40,500 and \$0, respectively.

Segment Reporting

Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosure About Segments of an Enterprise and Related Information" requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. SFAS 131 has no effect on the Company's consolidated financial statements as the Company consists of one reportable business segment. All revenue is from customers in People's Republic of China. All of the Company's assets are located in People's Republic of China.

Recent Pronouncements

In February 2006, FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments". SFAS No. 155 amends SFAS No 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 155, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interest in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on the qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of the Company's first fiscal year that begins after September 15, 2006.

In March 2006 FASB issued SFAS 156 'Accounting for Servicing of Financial Assets' this Statement amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement:

1. Requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract.
2. Requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable.





**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

3. Permits an entity to choose ‘Amortization method’ or ‘Fair value measurement method’ for each class of separately recognized servicing assets and servicing liabilities:
4. At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity’s exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value.
5. Requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities.

This Statement is effective as of the beginning of the Company’s first fiscal year that begins after September 15, 2006. Management believes that this statement will not have a significant impact on the consolidated financial statements.

**Note 3 - Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Bodisen Biotech, Inc., its 100% wholly-owned subsidiary Bodisen Holdings, Inc. (“BHI”), BHI’s 100% wholly-owned subsidiary Yang Ling Bodisen Biology Science and Technology Development Company Limited, and a 100% wholly-owned subsidiary, incorporated in March 2005, named Yang Ling Bodisen Agricultural Technology Co., Ltd. All significant inter-company accounts and transactions have been eliminated in consolidation.

**Note 4 - Marketable Security**

During the year ended December 31, 2005, the Company purchased 2,063,768 shares of China Natural Gas, Inc. (traded on the OTCBB: CHNG) for \$2,867,346. At March 31, 2006, the fair value of this investment was \$9,101,217 which resulted in an unrealized gain of \$2,290,783 for the three months ended March 31, 2006, which is included in other comprehensive income. At March 31, 2006, this represented an 8.6% interest in China Natural Gas, Inc.

**Note 5 - Intangible Assets**

Net intangible assets at March 31, 2006 were as follows:

|   |              |
|---|--------------|
| Rights to use land                        | \$ 1,705,069 |
| Fertilizers proprietary technology rights | 997,880      |
|   | 2,702,949    |
| Less Accumulated amortization             | (602,774)    |
|   | \$ 2,100,175 |

The Company’s office and manufacturing site is located in Yang Ling Agricultural High-Tech Industries Demonstration Zone in the province of Shaanxi, People’s Republic of China. The Company leases land per a real estate contract with the government of People’s Republic of China for a period from November 2001 through November 2051. Per the People’s Republic of China’s governmental regulations, the Government owns all land.



**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

During July 2003, the Company leased another parcel of land per a real estate contract with the government of the People's Republic of China for a period from July 2003 through June 2053.

The Company has recognized the amounts paid for the acquisition of rights to use land as intangible asset and amortizing over a period of fifty years. The "Rights to use land" is being amortized over a 50 year period.

The Company acquired Fluid and Compound Fertilizers proprietary technology rights with a life ending December 31, 2011. The Company is amortizing Fertilizers proprietary technology rights over a period of ten years.

Amortization expense for the Company's intangible assets for the three months ended March 31, 2006 and 2005 amounted to \$33,319 and \$32,470, respectively.

Amortization expense for the Company's intangible assets over the next five fiscal years is estimated to be: 2007-\$130,000, 2008-\$130,000, 2009-\$130,000, 2010-\$130,000 and 2011-\$130,000.

**Note 6 - Other Payable**

Other Payable represents fees and commission payable to third parties in connection with the financing in the United Kingdom.

**Note 7 - Note Payable**

On December 8, 2005, the Company issued a \$5,000,000 note payable to Amaranth Partners LLC that accrues interest at 9% per annum and was due on March 8, 2006. In connection with this note payable agreement, the Company also issued to Amaranth Partners LLC a warrant to purchase 133,333 shares of the Company common stock for \$7.50 per share. The Company first determined the value of the note and the fair value of the detachable warrants issued in connection with this note payable. The estimated value of the warrants of \$968,282 was determined using the Black-Scholes option pricing model and the following assumptions: term of 5 years, a risk free interest rate of 4.00%, a dividend yield of 0% and volatility of 31%. The face amount of the note payable of \$5,000,000 was proportionately allocated to the note payable and the warrant in the amount of \$4,188,810 and \$811,190, respectively. The amount allocated to the warrants of \$811,190 was recorded as a discount on the note payable and will be amortized over the year life of the note payable. For the three months ended March 31, 2006, \$603,886 has been amortized to interest expense as the note was repaid. The \$5,000,000 note plus \$112,500 of accrued interest were repaid in March 2006.

**Note 8 - Stockholders' Equity**

On February 3, 2006, the Company entered into a placing agreement (the "Placing Agreement") with Charles Stanley Securities ("Charles Stanley") relating to the sale of up to 1,643,836 shares of the Company's common stock. Pursuant to the Placing Agreement, Charles Stanley has agreed to use its reasonable effort to sell all such shares of common stock at a price of 730 pence (approximately US\$12.99) per share, resulting in gross proceeds of approximately 12 million British pounds sterling (US\$21,360,005). The Company incurred offering costs and expenses of \$5,144,356 related to this sale of common stock.

In connection with the placement, the Company's shares would be admitted to trading on the AIM Market of the London Stock Exchange. The Company's shares will continue to be listed on the American Stock Exchange.



**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

On March 15, 2006, the Company completed financing of \$5,322,506 by issuing 380,179 restricted shares of common stock of the Company at \$14.00 per share to institutional investors in a private placement pursuant to Regulation S. The Company incurred offering costs and expenses of \$988,351 related to this sale of common stock. The proceeds from this financing were used to repay the \$5 million short term note that the Company entered in December 2005.

During the three months ended March 31, 2006, 32,000 warrants were exercised and the Company received proceeds of \$220,160.

**Note 9 - Stock Options and Warrants**

Stock Options

The Company adopted SFAS No. 123 (Revised 2004), *Share Based Payment* (“SFAS No. 123R”), under the modified-prospective transition method on January 1, 2006. SFAS No. 123R requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. Share-based compensation recognized under the modified-prospective transition method of SFAS No. 123R includes share-based compensation based on the grant-date fair value determined in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, for all share-based payments granted prior to and not yet vested as of January 1, 2006 and share-based compensation based on the grant-date fair-value determined in accordance with SFAS No. 123R for all share-based payments granted after January 1, 2006. SFAS No. 123R eliminates the ability to account for the award of these instruments under the intrinsic value method proscribed by Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, and allowed under the original provisions of SFAS No. 123. Prior to the adoption of SFAS No. 123R, the Company accounted for our stock option plans using the intrinsic value method in accordance with the provisions of APB Opinion No. 25 and related interpretations.

Primarily as a result of adopting SFAS No. 123R, the Company recognized 7,523 in share-based compensation expense for the three months ended March 31, 2006. The impact of this share-based compensation expense on the Company’s basic and diluted earnings per share was \$0.00 per share. The fair value of our stock options was estimated using the Black-Scholes option pricing model.

For periods presented prior to the adoption of SFAS No. 123R, pro forma information regarding net income and earnings per share as required by SFAS No. 123R has been determined as if we had accounted for our employee stock options under the original provisions of SFAS No. 123. The fair value of these options was estimated using the Black-Scholes option pricing model. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the option’s vesting period. There is no pro forma expense to recognize during the three months ended March 31, 2005.

In 2004 the board of directors approved the creation of the 2004 Stock Option Plan. This plan provides for the grant of incentive stock options to employees, directors and consultants. Options issued under this plan will expire over a maximum term of five years from the date of grant.

Pursuant to the Stock Option Plan, during the twelve months ended December 31, 2004, the Company granted 110,000 stock options to two directors (55,000 options each), of which 100,000 stock options was granted on June 4, 2004 and the balance of the 10,000 was granted on December 28, 2004.

On the first 100,000 stock options granted, 50,000 stock options vested immediately and 50,000 stock options became vested over 8 equal quarterly installments, with the first installment vesting at the end of the second quarter of 2004. The 10,000 stock options granted on December 28, 2004 vested on December 31, 2004.

**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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The option exercise price was \$5 for the first 100,000 stock options which was the same as fair value of the shares at the time of granting of the options. The option exercise price was \$5.80 for the second 10,000 stock options which was the same as fair value of the shares at the time of granting of the options.

On October 4, 2005, the Company granted 26,000 stock options to two directors (13,000 options each). 20,000 stock options vested immediately and the remaining 6,000 stock options became vested over the next three months. The option exercise price was \$6.72 which was the same as fair value of the shares at the time of granting of the options. Following is a summary of the stock option activity:

|                                |         |
|--------------------------------|---------|
| Outstanding, December 31, 2005 | 136,000 |
| Granted                        | —       |
| Forfeited                      | —       |
| Exercised                      | —       |
| Outstanding, March 31, 2006    | 136,000 |

Following is a summary of the status of options outstanding at March 31, 2006:

| Outstanding Options |         |                                    | Exercisable Options    |         |                        |
|---------------------|---------|------------------------------------|------------------------|---------|------------------------|
| Exercise Price      | Number  | Average Remaining Contractual Life | Average Exercise Price | Number  | Average Exercise Price |
| \$5.00              | 100,000 | 3.17                               | \$5.00                 | 100,000 | \$5.00                 |
| \$5.80              | 10,000  | 3.74                               | \$5.80                 | 10,000  | \$5.80                 |
| \$6.72              | 26,000  | 4.51                               | \$6.72                 | 26,000  | \$6.72                 |

Warrants

Following is a summary of the warrant activity:

|                                |         |
|--------------------------------|---------|
| Outstanding, December 31, 2005 | 165,333 |
| Granted                        | —       |
| Forfeited                      | —       |
| Exercised                      | 32,000  |
| Outstanding, March 31, 2006    | 133,333 |



**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

Following is a summary of the status of warrants outstanding at March 31, 2006:

| Outstanding Warrants |         |                                    | Exercisable Warrants   |         |                        |
|----------------------|---------|------------------------------------|------------------------|---------|------------------------|
| Exercise Price       | Number  | Average Remaining Contractual Life | Average Exercise Price | Number  | Average Exercise Price |
| \$7.50               | 133,333 | 4.69                               | \$7.50                 | 133,333 | \$7.50                 |

**Note 10 - Employee Welfare Plans**

The Company has established its own employee welfare plan in accordance with Chinese law and regulations. The Company makes annual contributions of 14% of all employees' salaries to employee welfare plan. The total expense for the above plan \$0 and \$20,502 for the three months ended March 31, 2006 and 2005, respectively. The Company has recorded welfare payable of \$ 259,151 at March 31, 2006 which is included in accrued expenses in the accompanying consolidated balance sheet.

Since September, 2005, the Company was not required to accrue welfare contributions as the Company became a foreign investment Company.

**Note 11 - Statutory Common Welfare Fund**

As stipulated by the Company Law of the People's Republic of China (PRC), net income after taxation can only be distributed as dividends after appropriation has been made for the following:

- i. Making up cumulative prior years' losses, if any;
- ii. Allocations to the "Statutory surplus reserve" of at least 10% of income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company's registered capital;
- iii. Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory common welfare fund", which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and
- iv. Allocations to the discretionary surplus reserve, if approved in the stockholders' general meeting.

The Company established a reserve for the annual contribution of 5% of net income to the welfare fund in 2006 and 2005. The amount included in the statutory reserve for the three months ended March 31, 2006 and 2005 amounted to \$175,308 and \$39,837, respectively.

**Note 12 - Statutory Reserve**

In accordance with the Chinese Company Law, the company has allocated 10% of its annual net income, amounting \$350,615 and \$79,673 as statutory reserve for the three months ended March 31, 2006 and 2005, respectively.

**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 13 - Earnings Per Share**

Earnings per share for three months March 31, 2006 and 2005 were determined by dividing net income for the periods by the weighted average number of both basic and diluted shares of common stock and common stock equivalents outstanding.

The following is an analysis of the differences between basic and diluted earnings per common share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share".

|                                   | Three month periods ended March 31, |            |              |            |            |              |
|-----------------------------------|-------------------------------------|------------|--------------|------------|------------|--------------|
|                                   | 2006                                |            |              | 2005       |            |              |
|                                   | Income                              | Shares     | Per<br>Share | Income     | Shares     | Per<br>Share |
| <b>Basic earnings per share</b>   |                                     |            |              |            |            |              |
| Net income                        | \$ 2,682,643                        |            |              | \$ 796,733 |            |              |
| Weighted shares outstanding       |                                     | 17,215,232 |              |            | 15,268,000 |              |
|                                   |                                     |            | \$ 0.16      |            |            | \$ 0.05      |
| <b>Diluted earnings per share</b> |                                     |            |              |            |            |              |
| Net income                        | \$ 2,682,643                        |            |              | \$ 796,733 |            |              |
| Weighted shares outstanding       |                                     | 17,215,232 |              |            | 15,268,000 |              |
| Effect of dilutive securities     |                                     |            |              |            |            |              |
| Options                           |                                     | 89,537     |              |            | 261,458    |              |
| Warrants                          |                                     | 69,922     |              |            | —          |              |
|                                   |                                     | 17,374,691 |              |            | 15,529,458 |              |
|                                   |                                     |            | \$ 0.15      |            |            | \$ 0.05      |

**Note 14 - Current Vulnerability Due to Certain Concentrations**

Four vendors provided 58.74%, 13.58%, 5.43% and 4.78% of the Company's raw materials for the three months ended March 31, 2006 and four vendors provided 22%, 18%, 16% and 16% of the Company's raw materials for the three

months ended March 31, 2005. The payable balance for these parties amounted to \$450,758 at March 31, 2006.

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**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, by the general state of the PRC's economy. The Company's business may be influenced by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

**Note 15 - Reclassifications**

Certain prior period amounts have been reclassified to conform to the three months ended March 31, 2006 presentation.

## **Item 2. Management's Discussion and Analysis or Plan of Operations**

### **INTRODUCTION**

The following discussion should be read in conjunction with the Audited Financial Statements and Notes thereto included in our Annual Report on Form 10KSB for the year ended December 31, 2005. This document contains certain forward-looking statements including, among others, anticipated trends in our financial condition and results of operations and our business strategy. (See "Factors Which May Affect Future Results"). These forward-looking statements are based largely on our current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Important factors to consider in evaluating such forward-looking statements include (i) changes in external factors or in our internal budgeting process which might impact trends in our results of operations; (ii) unanticipated working capital or other cash requirements; (iii) changes in our business strategy or an inability to execute our strategy due to unanticipated changes in the industries in which the Company operates; and (iv) various competitive market factors that may prevent us from competing successfully in the marketplace.

### **Overview**

The Company is incorporated under the laws of the state of Delaware and its operating subsidiary, Yang Ling, is headquartered in the Shaanxi Province, the People's Republic of China. The Company engages in the business of manufacturing and marketing organic fertilizers, pesticides, and agricultural raw materials in the People's Republic of China. It produces numerous product lines, from pesticides to crop specific fertilizers. These products are then marketed and distributed through approximately 600 distribution centers throughout the 20 provinces of the People's Republic of China. The Company conducts research and development to further improve existing products and develop new formulas and products.

### **Significant Accounting Policies**

#### *Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Accounts receivable*

The Company maintains reserves for potential credit losses on accounts receivable. It reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Reserves are recorded primarily on a specific identification basis.

#### *Inventories*

Inventories are valued at the lower of cost (determined on a weighted average basis) or market. The Company compares the cost of inventories with the market value and allowance is made for writing down the inventories to their market value, if lower.

*Property and equipment*

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives of: 30 years for building, 10 years for machinery, 5 years for office equipment and 8 years for vehicles.

*Intangible assets*

Intangible assets consist of rights to use land and proprietary technology rights to fertilizers. The Company evaluates intangible assets for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets, other long-lived assets and, goodwill is measured by comparing their net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss. Potential impairment of goodwill after July 1, 2002 is being evaluated in accordance with SFAS No. 142. The SFAS No. 142 is applicable to the financial statements of the Company beginning July 1, 2002.

*Revenue recognition*

The Company's revenue recognition policies are in compliance with Staff Accounting Bulletin ("SAB") 104. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations by the Company exist and collectibility is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

*Stock-based compensation*

The Company accounts for its stock-based compensation in accordance with SFAS No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123." The Company recognizes in the statement of operations the grant- date fair value of stock options and other equity-based compensation issued to employees and non-employees.

*Income taxes*

The Company utilizes SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

According to the Provisional Regulations of the People's Republic of China on Income Tax, the Document of Reductions and Exemptions of Income Tax for the Company have been approved by the local tax bureau and the Management Regulation of Yang Ling Agricultural High-Tech Industries Demonstration Zone. The Company is exempted from income tax in its first two years of operations.





*Foreign currency transactions and comprehensive income (loss)*

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as gain or loss on foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. Transactions occur in Chinese Renminbi. The unit of Renminbi is in Yuan.

**Recent Accounting Pronouncements**

In March 2006 FASB issued SFAS 156 'Accounting for Servicing of Financial Assets' this Statement amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement:

1. Requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract.
2. Requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable.
3. Permits an entity to choose 'Amortization method' or 'Fair value measurement method' for each class of separately recognized servicing assets and servicing liabilities:
4. At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value.
5. Requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities.

This Statement is effective as of the beginning of the Company's first fiscal year that begins after September 15, 2006. Management believes that this statement will not have a significant impact on the consolidated financial statements.

*Three months ended March 31, 2006 compared to three months ended March 31, 2005*

Revenue. The Company generated revenues of \$10,535,360 for the three months ended March 31, 2006, an increase of \$5,833,685 or 124.1%, compared to \$4,701,675 for the three months ended March 31, 2005. The growth in revenue was primarily attributable to the increase in the customer base as the company continued to aggressively market their products and the growing awareness in the agricultural industry in the markets in which they do business of the efficacy of their products. The Bodisen brand name has become synonymous with proven higher crop yields. The completion of the new factory in early 2005 enabled the company to meet the growing demand for all of its products.

Gross profit. The Company achieved a gross profit of \$4,236,239 for the three months ended March 31, 2006, an increase of \$2,582,062 or 156.1%, compared to \$1,654,177 for the three months ended March 31, 2005. Gross margin, as a percentage of revenues, increased from 35.2% for the three months ended March 31, 2005, to 40.2% for the three months ended March 31, 2006. The increase in gross margin was primarily attributable to the increase in the prices of main products. During the quarter the Company raised its prices two times. The first was due to price increases throughout the industry and then it was realized that the marketplace would accept paying a premium for Bodisen brand products, so the Company raised its prices again. In addition, the Company used the \$5,000,000 from the short term note that was issued in December 2005, to enter into purchasing agreements that locked in the 2005 price levels for all raw materials the Company purchases during 2006.

Operating expenses. The Company incurred operating expenses of \$778,398 for the three months ended March 31, 2006, an increase of \$351,788 or 82.5%, compared to \$426,610 for the three months ended March 31, 2005. These operating expenses are related to increased sales and marketing costs related to the 124.1% increase in sales for the first quarter 2006.

Aggregated selling expenses of \$474,174 for the three months ended March 31, 2006, an increase of \$326,034 or 220% compared to \$148,140 for the three months ended March 31, 2005, account for expenses related to costs associated with sales and marketing of the Company's products and with transportation of its products. As the Company continues to grow revenues, it is selling Bodisen products greater distances from its factories, leading to increased shipping costs, most notably on the compound fertilizer product which is sold in 50 kilogram (110 pounds) units. The increase in the cost of fuel has also had an effect on operating expenses. Operating expenses include general and administrative expenses of \$304,224 for the three months ended March 31, 2006 and \$278,470 for the three months ended March 31, 2005, an increase of \$25,754 or 9.2%. Operating expenses are related to the cost of maintaining the company's facilities, salaries and research and development.

Net Income. Net income increased by 236.7% to \$2,682,643 during the three months ended March 31, 2006, an increase of \$1,885,910, from \$796,733 for the three months ended March 31, 2005. Earnings per share (EPS) rose to \$0.16 for the three months ended March 31, 2006 from \$0.05 for the three months ended March 31, 2005. The increase was attributed to a very strong marketing campaign that has 2 goals: first, to saturate the markets where the company has sold product in the past so that it can achieve greater market penetration and secondly to grow the demand in new markets and regions throughout China. The strong growth in net income also occurred as a result of management's strategic decision to place the \$5,000,000 note in December 2005 and lock in raw material costs before any announced increases.

### **Liquidity and Capital Resources**

As of March 31, 2006 the Company had \$26,085,746 of cash and cash equivalents on hand, compared to \$6,276,897 cash and cash equivalents on hand as of December 31, 2005. The significant increase is due to the sale of Company stock during the three months ended March 31, 2006 that resulted in gross proceeds of \$26,682,511.

On March 16, 2005, the Company completed a \$3 million convertible debenture private placement through an institutional investor. The Company issued a one year 9% debenture convertible into shares of common stock by dividing the aggregate principal and accrued interest by a conversion price of \$4.80; and three year warrants to purchase 187,500 shares of common stock at \$4.80 per share. In connection with the placement a three year warrant was issued to purchase 40,000 shares of common stock at \$6.88 per share. During the course of 2005 the note was fully converted to 657,402 shares of common stock. 195,500 of the warrants were exercised during December 2005 and 32,000 warrants were exercised during January 2006. The net proceeds from this offering were used towards capital contribution of the registration of a wholly-owned Bodisen subsidiary by the name of Yang Ling Bodisen Agricultural Technology Co., Ltd.

On February 3, 2006, we entered into an agreement to sell 1,643,836 shares of the Company's common stock at 730 pence (approximately \$12.99). These shares are to be traded on the AIM Market of the London Stock Exchange. The resulting proceeds were approximately 12,000,000 British pounds sterling (approximately \$21,360,000). The proceeds are intended for construction of two factories in the Northwest and Northeast of China, allowing the Company to greatly increase the geographical area in which it can sell its products by overcoming the logistical issues in selling and shipping its products over increasingly greater distances. In addition, proceeds will also be used to purchase raw materials and for general corporate purposes.

On March 15, 2006 the Company completed a financing of US\$5,322,506 by issuing 380,179 restricted shares of common stock at \$14.00 per share to private institutional investors in a private placement. The proceeds of this financing were used to repay the \$5,000,000 short term note plus interest which the Company entered into on December 2005.

As of March 31, 2006 accounts payable was \$777,648, other payables were \$3,408,113 and accrued expenses were \$473,253. Cash outflows used in investing activities decreased from \$890,633 in the three month period ended March 31, 2005 to \$392,923 in the three month period ended March 31, 2006, as a result of a decrease in acquisitions of property and equipment. Accounts receivable at March 31, 2006, were \$11,848,040. Based on past performance and current expectations, the Company believes its cash and cash equivalents and cash generated from operations will satisfy its working capital needs, capital expenditures and other liquidity requirements associated with its operations.

The majority of Bodisen Biotech, Inc. revenues and majority of the expenses in 2006 were denominated primarily in Renminbi ("RMB"), the currency of the People's Republic of China. There is no assurance that exchange rates between the RMB and the U.S. dollar will remain stable. A devaluation of the RMB relative to the U.S. dollar could adversely affect our business, financial condition and results of operations. Bodisen does not engage in currency hedging. Inflation has not had a material impact on Bodisen's business.

### **Item 3. Controls and Procedures**

The Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. There were no significant changes in internal control over financial reporting (as defined in Rule 13a-15f under the Exchange Act) that occurred during the first quarter of 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **Part II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

None.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Previously disclosed in Form 8-K filed March 20, 2006.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(a) Exhibits

**E x h i b i t**

| <b>Number</b> | <b>Description of Exhibit</b>   |
|---------------|---|
| 3.1           | Certificate of Incorporation (incorporated by reference to Company's Form SB-2 filed September 3, 2002).  |
| 3.2           | Amendment to Certificate of Incorporation (incorporated by reference to Company's Form 10-KSB filed March 30, 2004).  |
| 3.3           | By-Laws (incorporated by reference to Company's Form SB-2 filed September 3, 2002).   |
| 10.1          | Loan Agreement, dated as of September 28, 2003, between the Company and Xianyang City Commercial Bank. (incorporated by reference to Company's Form 10-KSB filed March 30, 2004). |
| 10.2          | Bodisen Biotech, Inc. 2004 Stock Option Plan (incorporated by reference to Company's Form 10-KSB filed March 31, 2005).   |
| 10.3          | Form of Bodisen Biotech, Inc. Nonstatutory Stock Option Agreement (incorporated by reference to Company's Form 10-KSB filed March 31, 2005).                                      |
| 21.1          | Schedule of Subsidiaries (incorporated by reference to Company's Form 10-KSB filed March 31, 2005).   |
| 31.1          | Certification of Principal Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended                    |
| 31.2          | Certification of Principal Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended                    |
| 32.1          |   |

Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Bodisen Biotech, Inc.

May 9, 2006

By:

/s/ Wang Qiong

Wang Qiong  
Chief Executive Officer (Principal Executive Officer)

May 9, 2006

By:

/s/ Yiliang Lai

Yiliang Lai  
Chief Financial Officer  
(Principal Financial and Accounting Officer)